

**MIDDLE FORK PROJECT  
FINANCE AUTHORITY  
Financial Statements**

**December 31, 2008**

**(With Independent Auditors' Report Thereon)**

This Page Left Intentionally Blank

# MIDDLE FORK PROJECT FINANCE AUTHORITY

December 31, 2008

---

## Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets and Governmental Fund Balance Sheet	7
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance	8
Notes to the Financial Statements	9

This Page Left Intentionally Blank

## INDEPENDENT AUDITORS' REPORT

Board of Directors of the  
Middle Fork Project Financing Authority  
Auburn, California

**ACCOUNTANCY CORPORATION**  
3478 Buskirk Ave. - Suite 215  
Pleasant Hill, California 94523  
(925) 930-0902 • FAX (925) 930-0135  
maze@mazeassociates.com  
www.mazeassociates.com

We have audited the governmental activities and Debt Service Fund of the Middle Fork Project Financing Authority as of and for the year ended December 31, 2008. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year financial statements were audited by other auditors who expressed an unqualified opinion dated June 26, 2008.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities and Debt Service Fund of the Middle Fork Project Financing Authority at December 31, 2008, and the respective changes in financial position for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

As described in Notes 4, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Required Supplementary Information are required by the Government Accounting Standards Board, but are not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

*Maze + Associates*

March 31, 2009

This Page Left Intentionally Blank

# **MIDDLE FORK PROJECT FINANCE AUTHORITY**

## **Management's Discussion and Analysis**

**December 31, 2008**

This section presents management's narrative overview and analysis of the Middle Fork Project Finance Authority (Authority) financial activities as of and for the period ended December 31, 2008. This Management's Discussion and Analysis is intended to serve as an introduction to and should be read in conjunction with the Authority's basic financial statements that follow this section.

### **ORGANIZATION**

The Authority was created in January 2006 as a joint powers authority (JPA) by the County of Placer (County) and the Placer County Water Agency (Agency) to serve the mutual interests of the County and the Agency to provide for the financing of costs for the Middle Fork American River Hydroelectric Project (MFP) Federal Energy Regulatory Commission (FERC) Relicensing Project being lead by the Agency. The Placer County Water Agency 'Water Agency Act' states that "no contract for the sale of electrical energy shall be executed, nor shall any revenues received pursuant to any contract for the sale of electrical energy entered into after January 1, 1975, be spent, unless previously approved by the Board of Supervisors of the County". The JPA Agreement effectively conveyed the Agency's and County's interest in the MFP electric power contained in the California Water Code, Placer County Water Agency Act, Chapter 81, section 7.3 and the related revenues to the Authority. Subsequent to the Agency's existing 50-year power sale agreement with PG&E, which ends in 2013, the Authority will serve to approve future MFP electrical energy sales and to distribute revenues from those future MFP energy sales.

The Authority is governed by a four-member Board of Directors composed of two members of the Placer County Board of Supervisors and two members of the Placer County Water Agency Board of Directors. Each Board selects their two members to the Authority Board.

The Authority was formed pursuant to the Joint Exercise of Powers Act and is legally separate and fiscally independent from the County and Agency. As such, the Authority can incur debt, set and modify its own budgets, and enter into contracts. The accompanying financial statements reflect the financial activity of the Authority. The Authority has no component units.

### **Financial Highlights**

On March 27, 2006, the Authority's Board approved the issuance of a bond in the maximum amount of \$100 million to finance the FERC Relicensing costs. Funds are provided by quarterly advanced draws based on budgeted funding needs. The Placer County Treasurer is the bondholder and the draws are added to the outstanding bond principal as well as capitalized interest, through 2013. The Authority draws are to pay Relicensing and related expenses in conjunction with the FERC license renewal date in March 2013. The existing 50-year MFP power agreement with PG&E expiration coincides with the FERC license renewal, after which the Authority will receive revenues of the MFP electrical energy sales. The Authority draws are in advance of the anticipated budgeted use of the funds, hence the year-end cash and investment balance of \$4 million includes funds drawn the first quarter 2009 budgeted funding needs.

## MIDDLE FORK PROJECT FINANCE AUTHORITY

### Management's Discussion and Analysis

**December 31, 2008**

During 2008, the Authority drew a total of \$9 million, and remitted \$6 million to the Agency for Relicensing costs. At December 31, 2008, the outstanding bond principal balance, including capitalized interest expense totaled \$28.3 million.

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) Government Fund financial statements (debt service fund), and 2) Notes to financial statements. This financial information together provides a more complete view of the Authority's financial activities and financial position.

**Government-wide Financial Statements** are designed to provide readers with a broad overview of the Authority's finances used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other special purpose governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

The *Statement of Net Assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Through 2013, the Authority is the mechanism to finance the MFP Relicensing Project; hence, net assets will be negative as debt increases (Net Deficit).

The *Statement of Activities* presents the change in net assets for the year in detail, with emphasis on measuring the net revenues or expenses of the Authority's activities over the course of the fiscal year ending December 31 and information as to how the net assets changed during the year.

*Fund Financial Statements* are designed to report detailed information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives, and focus primarily on the short-term activities of the Authority.

*Governmental Funds* are used to account for essentially the same functions reported as governmental activities in the governmental financial statements. However, their focus is on the near-term inflows and outflows of spendable resources, and the balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements. The governmental fund financial statements provide detailed information about the Authority's fund.

**Notes to Basic Financial Statements** provide additional information that is essential for a full understanding of the data provided in the government wide financial statements. The notes to basic financial statements can be found on pages 9 through 14 of this report.

### FINANCIAL ANALYSIS

Since its creation in January 2006 through the FERC Relicensing process anticipated ending in March 2013, the Authority's primary function is a financing conduit for the Relicensing and related expenses. Based on the 2006 Revenue Bond agreement and budgeted spending, funds are drawn



# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Management's Discussion and Analysis

**December 31, 2008**

from the Placer County Treasurer based on quarterly draw requests and reimbursed to the Agency based on submitted claim requests for their incurred Relicensing and related expenses. As the Agency will continue to own and operate the MFP and will hold title to the new FERC license, the relicensing project expenses are Agency expenses, thereby the County submits reimbursement to the Agency and the Agency is reimbursed by the Authority.

The drawn amounts together with the capitalized interest costs will be added to the debt principal.

### *Adopted Budget*

Annually, the Authority's Board of Directors adopts a budget. The budget is comprised of MFP relicensing, betterments, improvements and maintenance and authority administration expenses. A 2008 adjusted budget in comparison with actual amounts is presented in Table 1 below:

**Table 1**  
**Statement of Activities**  
**2008 Budget vs. Actual**

	<b>2008 Adjusted Budget</b>	<b>2008 Actual</b>	<b>Variance</b>	<b>%</b>
<b>Financing Sources:</b>				
Bond proceeds (New draws)*	\$ 9,431,468	9,007,029	(424,439)	-5%
Carryover amount from prior year(s)	-	500,950	500,950	100%
Investment earnings	80,000	61,805	(18,195)	-23%
Total financing sources	9,511,468	9,569,784	58,316	1%
<b>Expenses:</b>				
Administration expense	65,000	33,266	31,734	49%
Bond interest expense**	1,275,000	1,180,384	94,616	7%
MFP Relicensing expense	7,128,866	6,045,994	1,082,872	15%
MFP Betterments, improvements & maintenance expense	1,127,000	523,191	603,809	54%
Total expenses	9,595,866	7,782,835	1,813,031	19%
Total financing sources over (under) expenses	(84,398)	1,786,949	1,871,347	
Available for carryover	-	1,786,949	1,786,949	
Amount held in Reserve	(84,398)	-	84,398	
Net	\$ -	-	-	

\* For financial statement presentation, proceeds from debt issuance (bond proceeds) has been adjusted out of the Statement of Activities.

\*\*Until the debt conversion date of April 1, 2015, the debt interest cost is capitalized and accrues with the debt principal without any cash payments. The bond interest expense is an estimate because it is based on a floating interest rate and actual amounts will vary. As the bond documents bind the Authority, any variance between budget and actual will not require a budget adjustment.

## MIDDLE FORK PROJECT FINANCE AUTHORITY

### Management's Discussion and Analysis

December 31, 2008

#### LONG-TERM DEBT

At December 31, 2008, the Authority had total long-term debt outstanding of \$28.3 million. This amount is based on draw requests to provide financing of the MFP FERC Relicensing effort through the first quarter of 2009.

#### NEXT YEAR'S BUDGET

Management and the Board assessed the available working capital, the Relicensing Project expense needs of the Authority. Based on this assessment and management's recommendation, the annual budget was adopted by the Board. The Budget may be modified to meet changes in funding needs.

**Table 2**  
**2009 Budget vs. 2008 Actual**

	<b>2009 Budget</b>	<b>2008 Actual</b>	<b>Variance</b>	<b>%</b>
<b>Financing Sources:</b>				
Bond proceeds (New draws)*	\$ 9,321,925	9,007,029	(314,896)	-3%
Carryover amount from prior year(s)	-	500,950	500,950	100%
Investment earnings	40,000	61,805	21,805	35%
Total financing sources	9,361,925	9,569,784	207,859	2%
<b>Expenses:</b>				
Administration expense	40,000	33,266	6,734	20%
Bond interest expense**	1,974,925	1,180,384	794,541	67%
MFP Relicensing expense	5,652,000	6,045,994	(393,994)	-7%
MFP Betterments, Improvements	1,695,000	523,191	1,171,809	224%
Total expenses	9,361,925	7,782,835	1,579,090	20%
Total financing sources over (under) expenses	-	1,786,949	1,786,949	
Available for carryover	-	1,786,949	1,786,949	
Amount held in Reserve	-	-	-	
Net	\$ -	-	-	

\* For financial statement presentation, proceeds from debt issuance (bond proceeds) has been adjusted out of the Statement of Activities.

\*\*Until the debt conversion date of April 1, 2015, the debt interest cost is capitalized and accrues with the debt principal without any cash payments. The bond interest expense is an estimate because it is based on a floating interest rate and actual amounts will vary. As the bond documents bind the Authority, any variance between budget and actual will not require a budget adjustment.

MIDDLE FORK PROJECT FINANCE AUTHORITY  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2008

	<u>Debt Service Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Current Assets:			
Restricted Cash and Investments (Note 3)	\$4,038,984		4,038,984
Interest Receivable	<u>9,029</u>		<u>9,029</u>
Total Current Assets	<u>4,048,013</u>		<u>4,048,013</u>
Non-Current Assets:			
Deferred Issuance Costs		<u>77,208</u>	<u>77,208</u>
Total Assets	<u>\$4,048,013</u>	<u>77,208</u>	<u>4,125,221</u>
LIABILITIES			
Non-Current Liabilities:			
Long-Term Debt, Due After One Year (Note 4)		<u>28,343,201</u>	<u>28,343,201</u>
Total Liabilities		<u>28,343,201</u>	<u>28,343,201</u>
FUND BALANCE/NET DEFICIT			
Fund Balance:			
Reserved for FERC Relicensing (Note 2)	<u>\$4,048,013</u>	<u>(4,048,013)</u>	
Total Fund Balance	<u>4,048,013</u>	<u>(4,048,013)</u>	
Total Liabilities and Fund Balance	<u>\$4,048,013</u>	<u>24,295,188</u>	
Net Deficit			
Unrestricted (Note 6)		<u>(24,217,980)</u>	<u>(24,217,980)</u>
Total Net Deficit		<u>(24,217,980)</u>	<u>(24,217,980)</u>

See accompanying note to financial statements

MIDDLE FORK PROJECT FINANCE AUTHORITY  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Debt Service Fund	Adjustments	Statement of Net Assets
EXPENDITURES			
Relicensing Expense	\$ 6,045,994		6,045,994
Betterments, Improvements and Maintenance Expense	523,191		523,191
Professional Services	12,388		12,388
Interest Expense		1,180,384	1,180,384
Amortization Expense (Note 2)		2,834	2,834
Miscellaneous	18,044		18,044
	<u>6,599,617</u>	<u>1,183,218</u>	<u>7,782,835</u>
Total Expenditures/Net Program Expense			
GENERAL REVENUES			
Interest Income	61,805		61,805
	<u>61,805</u>		<u>61,805</u>
Total General Revenues			
	<u>61,805</u>		<u>61,805</u>
Deficiency of Revenues over Expenditures	(6,537,812)	(1,183,218)	(7,721,030)
OTHER FINANCING SOURCES			
Proceeds from Debt Issuance	9,007,029	(9,007,029)	
	<u>9,007,029</u>	<u>(9,007,029)</u>	
Total Other Financing Sources			
	<u>9,007,029</u>	<u>(9,007,029)</u>	
Change in Fund balance/Net Deficit	2,469,217	(10,190,247)	(7,721,030)
FUND BALANCE/NET DEFICIT			
Beginning of Year	1,578,796	(18,075,746)	(16,496,950)
	<u>1,578,796</u>	<u>(18,075,746)</u>	<u>(16,496,950)</u>
End of Year	\$ 4,048,013	(28,265,993)	(24,217,980)
	<u>\$ 4,048,013</u>	<u>(28,265,993)</u>	<u>(24,217,980)</u>

See accompanying note to financial statements

# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Notes to the Financial Statements

December 31, 2008

---

### 1. Organization and Reporting Entity

The Middle Fork Project Finance Authority (Authority) was created in January 2006 as a joint powers authority by the County of Placer (County) and the Placer County Water Agency (Agency). The Authority is organized and operates pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and the joint exercise of powers agreement dated January 10, 2006 between the County and the Agency (JPA Agreement).

The Authority was formed to serve the mutual interests of the County and the Agency, exclusively, to provide for the financing of studies, programs, procedures, projects, services, improvements, modifications and other costs that may be required to obtain a new Federal Energy Regulatory Commission (FERC) license or which may be completed under the current or subsequent FERC license of the Middle Fork American River Hydroelectric Project (MFP) by the Agency, to approve future MFP electrical energy sales and to distribute revenues from those future MFP energy sales.

The JPA Agreement effectively conveyed the Agency's and County's interest in the MFP electric power and related revenues to the Authority.

The Authority is governed by a four-member Board of Directors composed of two members of the Placer County Board of Supervisors and two members of the Placer County Water Agency Board of Directors. Each Board selects their two members to the Authority Board.

The Authority was formed pursuant to the Joint Exercise of Powers Act and is legally separate and fiscally independent from the County and Agency. As such, the Authority can incur debt, set and modify its own budgets, and enter into contracts. The accompanying financial statements reflect the financial activity of the Authority. The Authority has no component units.

### 2. Summary of Significant Accounting Policies

#### ***Basis of Presentation and Accounting***

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Government-wide financial statements—The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the Authority. The Authority uses only governmental activities, which almost all are supported by debt proceeds.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

## MIDDLE FORK PROJECT FINANCE AUTHORITY

### Notes to the Financial Statements

**December 31, 2008**

---

Fund financial statements – The accounts of the Authority are organized and operated on a fund basis. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and

other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

For reporting purposes, the Authority presents fund type activities as a governmental type debt service fund. The debt service fund is used to account for the accumulation of resources for, and the payment of, principal and interest and other charges on the bonds issued. The debt service fund is considered a major governmental fund.

The Authority maintains the debt service fund's accounting records on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All revenue items are considered to be measurable and available only when cash is received by the Authority.

#### ***Accounting Records***

The Authority's accounting records are maintained by the Agency. Internal accounting controls are in place to ensure that transactions are initiated, approved and coded by the Authority's management.

#### ***Annual Financial Statements***

These financial statements are intended to reflect the financial position, results of operation and net assets of the Authority.

#### ***Restricted Assets – Cash and Investments***

Debt financing proceeds, which compose almost all the Authority's cash and investments, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

#### ***Long-Term Debt***

In the financial statements long-term debt is reported as a liability in the applicable governmental activities. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

The governmental fund types financial statements recognize issuance costs, during the current period. The face amount of the debt issued is reported as other financial sources. Issuance costs are reported as debt service expenditures. For the period ended December 31, 2008, the amortization of the bond issuance costs was \$2,834.

# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Notes to the Financial Statements

December 31, 2008

### *Fund Balance/Net Assets*

In the basic financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The following is a description of the reserves used by the Authority:

**Reserved for FERC Relicensing** – Used to represent a portion of fund balance restricted for FERC Relicensing expense payments.

### 3. Cash and Investments

Cash and investments as of December 31, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Restricted Cash and Cash Equivalents	\$ 4,038,984
Total cash and cash equivalents	<u>\$ 4,038,984</u>

Cash and investments at December 31, 2008 consist of the following:

Deposits with financial institutions	\$ 2,130,645
Investment in Local Agency Investment Fund	1,908,339
Total cash and investments	<u>\$ 4,038,984</u>

Cash and investments shown on the statement of net assets and the balance sheet represent the Authority's cash in the State's investment pool and its deposits with financial institutions. The Authority currently maintains all of its cash and investments as cash and cash equivalents in order to meet its anticipated cash resource needs. Virtually all the Authority's cash and investments are restricted by bond covenants. The cash and investment balance at December 31, 2008 includes the advance draw from the 2006 Revenue Bond for budgeted expenses for the first quarter 2009.

### **Investments Authorized by the California Government Code, the Authority's Investment Policy, and the Authority's debt agreement**

The California Government Code, Authority's Investment Policy and debt agreement allow the Authority to invest in the following authorized and permitted investment types provided the percentage and maturity limits are not exceeded.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (LAIF)	N/A	Up to 100%	No limit
Placer County Treasurer's Investment Pool	N/A	Up to 100%	No limit
Time Certificates of Deposit	2 years	Up to 100%	No limit
Money Market Mutual Funds	N/A	20%	10%
Passbook Deposits	N/A	Up to 100%	No limit

## **MIDDLE FORK PROJECT FINANCE AUTHORITY**

### **Notes to the Financial Statements**

**December 31, 2008**

---

#### **Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The California Government Code governs the Authority's credit risk requirements and the

Authority's investment policy and debt agreement do not place additional requirements relating to credit risk. At December 31, 2008, the Authority had \$1,908,339 invested with LAIF. LAIF is not rated by a nationally recognized statistical rating organization.

#### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law and the Authority's investment policy require banks and savings & loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit as collateral for deposits. The third party bank trustee agreement must comply with California Government Code, which requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Authority's deposits with financial institutions in excess of Federal Depository Insurance Corporation limits, totals \$1,880,645, which is collateralized with securities held by the pledging financial institution's trust department but not in the Authority's name.

#### **Investment in State Investment Pool – Local Agency Investment Fund**

The California State Treasurer maintains an investment pool in a special fund through which local governments may pool investments. The investment pool is named the Local Agency Investment Fund (LAIF). The Authority is a voluntary participant in the LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California and the Local Investment Advisory Board (Advisory Board). The Advisory Board consists of five members as designated by State Statute.

The Authority reports its investment in LAIF at the fair value provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is the Authority's proportionate share of its investment in the LAIF, which amounted to \$1,908,339 at December 31, 2008.



# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Notes to the Financial Statements

December 31, 2008

Included in the LAIF's investment portfolio at December 31, 2008, are collateralized mortgage obligations, mortgaged backed securities, and other asset-back securities, structured notes, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, US Treasury Notes and Bills and corporations. At December 31, 2008, the amount invested by all public agencies in the LAIF totaled \$63,290,206,371, which includes structured notes totaling \$6.56 billion (10.4%) and asset-backed securities totaling \$1.63 billion (2.6%). At December 31, 2008, the LAIF investments mature in an average of 223 days.

### 4. Long-term Debt

The following is a schedule of long-term debt for the year ended December 31, 2008:

	Balance January 1, 2008	Additions	Retirements	Balance December 31, 2008	Amount Due Within One Year	Non- Current Amount
2006 Revenue Bond	\$ 16,997,900	9,007,029	-	26,004,929	-	26,004,929
Add: bond interest	1,157,888	1,180,384	-	2,338,272	-	2,338,272
	<u>\$ 18,155,788</u>	<u>10,187,413</u>	<u>-</u>	<u>28,343,201</u>	<u>-</u>	<u>28,343,201</u>

On March 27, 2006, the Authority authorized a maximum principal amount of \$100,000,000 Middle Fork Project Finance Authority Revenue Bond, Series 2006 (2006 Revenue Bond). The 2006 Revenue Bond was issued to finance MFP FERC Relicensing Costs and related expenses. Quarterly, amounts advanced in the form of draws to the Authority are added to the 2006 Revenue Bond's principal amount. These quarterly advances are based on projected and budgeted resources needs, primarily Relicensing expenses, for the subsequent quarter. The 2006 Revenue Bond bears interest on the outstanding balance from March 29, 2006 through June 30, 2006 at 5.691% then bears interest at the yield on the United States Treasury Bond maturing February 15, 2036, plus 1% per annum for the outstanding balance July 1, 2006 – April 1, 2036 (bond maturity). The interest rate at December 31, 2008 for the United States Treasury Bond maturing February 15, 2036 is 2.625%. For the period from March 29, 2006 through April 1, 2015 the interest is calculated quarterly (January 1, April 1, July 1 and October 1) accrued and capitalized to the principal amount. Thereafter, principal and interest is due and payable semiannually on April 1 and October 1. The payment of principal and interest is secured by all revenues and all other funds after 2013 and accounts held by the Authority, which is primarily the MFP electric power and related revenues.

## MIDDLE FORK PROJECT FINANCE AUTHORITY

### Notes to the Financial Statements

December 31, 2008

---

#### **Future Revenues Pledged**

The pledge of future Revenues ends upon the repayment of the 2006 Revenue Bond scheduled to be repaid in 2036. The remaining debt service as of December 31, 2008 is \$36,093,596. Pursuant to the Bond Purchase Contract, the allocation of all revenues after April 1, 2015, are to be as follows:

- First, to pay or set-aside amounts for the payment of Maintenance and Operating costs;
- Second, to pay interest on the Bond;
- Third, to pay or set-aside amounts for the repayment of Relicensing Costs, Capital Improvements or to fund or maintain Reserves;
- Fourth, to pay principal then due and payable on the Bond; and
- Fifth, for any other Authority purpose; provided, if any amounts are distributed to the County and the Agency, the Authority shall apply an amount equal to the aggregate amount distributed to the County and the Agency to prepay the principal on the Bond.

# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Notes to the Financial Statements

December 31, 2008

---

### 5. Adjustment to Government-Wide Statements

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balance – Debt Service Fund	\$ 4,048,013
--	--------------

Various long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:

Long-term debt, due after one year	(28,343,201)
Deferred issuance costs	<u>77,208</u>

Net Deficit of Governmental Activities	\$ <u>(24,217,980)</u>
--	------------------------

Net Change in Fund Balance – Debt Service Fund	\$ 2,469,217
--	--------------

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Proceeds from issuance of long-term debt	(9,007,029)
Current year amortization of deferred issuance costs	<u>(2,834)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Accrued interest payable	<u>(1,180,384)</u>
--------------------------	--------------------

Change in Net Deficit of Governmental Activities	\$ <u>(7,721,030)</u>
--	-----------------------

### 6. Deficit Net Assets

The Authority had a deficit net assets balance of \$24,217,981 at December 31, 2008, primarily as a result of the issuance of the 2006 Revenue Bonds and will be eliminated with future MFP electric power and related revenues collected after 2013.

This Page Left Intentionally Blank